



THE BHUJ MERCANTILE CO-OP. BANK LTD.

H.O. Mithakhali Six Roads, Ahmedabad GJ-380006, www.bhujbank.com

Multi-State Bank.

STATUTORY AUDIT POLICY AND APPOINTMENT POLICY

Approved By:

Board of Directors – Meeting Dated 23-04-2022





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(SAY "BMCB BANK") Statutory Audit Policy and Appointment Applicable from 23-04-2022

As Reviewed in the Board of Directors meeting dtd 23-04-2022, pursuant to the requirement of Reserve Bank of India, vide its circular Ref. No. RBI/2021-22/25 Dos. CO.ARG/SEC. 01/08.91.001/2021-22 dated April 27, 2021, Our Bank's Statutory Audit Policy and Appointment was approved accordingly w.e.f. 23-04-2022 as under:

1. Objective: Reserve Bank of India, vide its circular Ref. No. RBI/2021-22/25 Dos. CO.ARG/SEC. 01/08.91.001/2021-22 dated April 27, 2021 has granted managerial autonomy to UCBs in the matter of appointment of Statutory Auditors for the F.Y. - 2021-22 and onwards and a roadmap is rolled out to operationalize the same. Our Policy for appointment of Statutory Auditors is prepared to fulfil the said object.
2. Number of Audit Firms:
 - a) The actual number of Statutory Audit Firms to be appointed can be decided by the Board subject to the prescribed minimum One Audit Firm. It has been decided by the Bank's Board to have Maximum Three Audit firms as Statutory Auditors. However, the Board may review and decide on the number of Statutory Auditor Firm any time if felt necessary.
 - b) As per RBI guidelines, Statutory Auditor has to visit and audit at least the Top 20% branches (in case of entities having less than 100 branches) to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Bank. But our Bank being a small Bank, Statutory Auditor will have to Audit atleast Top 50% Branches (Current and Prospective) of the bank and follow RBI Guidelines for the same.
3. Norms on Eligibility, Empanelment and Selection of Statutory Auditor: The eligibility norms (as advised by Reserve Bank of India) are as under:

Asset Size as on 31st March of 2021 and onwards	Minimum No. of Full Time Partners (FTPs) associated with the firm for a	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners Associated with the	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional Staff
				

	period of at least three (3) years	firm for a period of at least three (3) years		
Up to Rs.1000 Cr.	2	1	6	8
Notes	There should be at least one-year continuous association of partners with the firm as on the date of short listing	---	Audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of Commercial Banks (excluding RRBs)/UCBs/NBFCs/AIFs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.	Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/secretaries/ subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of short listing

- a) The Audit Firm should not be disqualified for an appointment as an Auditor u/s 141 of the Companies Act and other sections of applicable Acts viz. Co-operative Societies Act, Multi-State Co-operative Act, etc.
- b) The SA firm's total exposure should not exceed 10% of the Tier I capital of the Bank
- c) The firm or any of the partners should not be debarred by RBI or NFRA, ICAI and no such application is pending before such authority in these regards.
- d) None of the partners should be indebted to the Bank and neither of the partner or its relatives are in the willful list of Defaulters of any Bank or FIs/NBFCs
- e) None of the partners and their relatives should be Directors of the Bank.
- f) They should not be the Concurrent Auditors of the Bank for the specified period.
- g) The Statutory Auditor of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the Gujarati Language.
- h) In case any audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), it will promptly inform the Bank with full details, and, the Bank, in turn will approach RBI.
- i) Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.



- j) In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, Bank will approach RBI to allow the concerned audit firm to complete the audit, as a special case.
- k) In case of completion of statutory audit for the first year, the audit firm denies to continue for the next years, then Bank will have to do the whole process of appointment and permission again.

4. Procedure for Selection and appointment of Statutory Auditors: Bank will select audit firms considering the following points/parameters:

- a) As far as possible, at least two audit firms having their Head Office or branches located in Area of Operation of the Bank.
- b) The firms whose partner/s or relatives of partners (as defined in Director's relatives in RBI master circular on Board of Directors) are on the Board of our Bank will not be appointed as auditors for the Bank.
- c) The Bank will prepare a list of at least 2 shortlisted audit firms. The list of shortlisted audit firms will be placed before BOD. BOD will approve at least 2 suitable audit firms in order of preference, to take care of the situation, where first preference is found to be ineligible / refuses appointment.
- d) However, in case of reappointment of Statutory Auditor till completion of tenure of continuous term of 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval to appointment. The audit firm should give their consent in writing for consideration of appointment in our bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility norms prescribed by RBI from time to time.
- e) Upon deciding preference as Statutory Auditors in consultation with the BOD and verifying their compliance with the eligibility norms as prescribed by RBI, the Bank will send the list of at least 2 audit firms (in order of preference), to RBI for its prior approval for appointment of Statutory Auditor.
- f) While approaching RBI for its approval for appointment of Statutory Auditor, the Bank will indicate the total asset size as on March 31st of the previous year (audited figures) along with Board Resolution recommending names of Audit Firms for appointment in order of preference and Form B and Form C to facilitate expedite approval of appointment of Audit Firms

5. Scope and periodicity of Audit: The scope and periodicity of the Statutory Audit will be as per prevailing statutory / regulatory guidelines issued by regulatory / supervisory authorities in this regard from time to time. In absence to any statutory / regulatory guidelines, the scope and periodicity as approved by the BoD shall prevail.

6. Tenure and Rotation:

- a) The Bank will make the appointment of Statutory Auditors for a continuous period of three years subject to the firms satisfying the eligibility norms each year.
- b) An Audit Firm would not be eligible for reappointment in the Bank for six years (two tenures) after completion of full or part of one term of the audit tenure.



7. Relinquishment of the internal assignments, if any: In the event of acceptance of the appointment as Statutory Auditor of the Bank, all the internal assignments of the Auditor in our Bank, if any, will stand withdrawn.

8. Other Guidelines

- a) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the proposed SAs for the Bank or any audit/non-audit works for its group entities is atleast one year before or will be atleast one year after its appointment as SAs.
- b) Concurrent Auditor of the Bank should not be considered for appointment as Statutory Auditor.
- c) The restrictions will also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- d) The incoming audit firm shall not be eligible if it is associated with the outgoing audit firm under the same network of audit firms.
- e) The BOD shall monitor and assess the independence of the auditors. Any concerns in this regard will be flagged by the BOD to RO of RBI.
- f) In case of any concern with the management of the Bank such as non-availability of information / non-co-operation by the Management, which may hamper the audit process, the Auditor shall have to approach the Board of the Bank under intimation to the concerned RO of RBI

9. Number of Assignments: One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks, eight UCBs and eight NBFCs during a particular year subject to compliance with required eligibility criteria and other conditions for each Entity. The limit prescribed for UCBs does not include audit of other co-operative societies.

10. Professional Standards of Statutory Auditor: The Board will review the performance of Statutory Auditors on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on the part of Statutory Auditor or any other matter considered as relevant shall be reported to RBI with approval / recommendation of the Board with full details of the audit firm within two months from completion of the annual audit.

11. Remuneration and Expenses: The Audit fees for Statutory Audit will be decided by Board of Directors and will be limited to the provisions of Multi-State Co-operative Societies Act. The Audit Expenses shall be re-imbursed to the SAs subject to following limits:

Type of Expenses	Re-imburement Limit*
Food Expenses Limit	Rs. 400/- per person per day.
Travelling by Road	Rs. 8/- per k.m. Car
Travelling by Transport	On actual basis



Lodging and Boarding Expenses Limit	Kutch & Ahmedabad Region	Mumbai Region
Professional	Rs. 750/- per person per night	Rs. 1000/- per person per night
Associates / Interns / Subordinates	Rs. 500/- per person per night	Rs. 750/- per person per night

*CEO is authorized to permit the maximum limit of expenses subject to Actual Bills submitted for Re-imbusement.

12. Removal: Bank will not remove the audit firm during the above period without the prior approval of the Reserve Bank of India. The BOD of the Bank will be the complete authority to recommend removal of any Statutory Auditor to RBI.
13. Declarations/Undertaking to be obtained from the Audit Firm:
 - a) A suitable undertaking from the firm to the effect that the Audit work till be carried out by their own staff and they will not subcontract the audit work.
 - b) There are no adverse remarks / disciplinary proceedings pending / initiated against the firm / any of its partners on the records of ICAI, which would make them ineligible for appointment as auditors.
 - c) None of the partners or the Firm / Company in which they are Partners / Directors are defaulters in any Bank or Financial Institution.
 - d) Associate firms or sister concerns of Statutory Audit Firm will be disqualified for internal assignment where the main firm / partners are allotted Statutory Audit in a particular year.
 - e) In event of lapses in carrying out audit assignments resulting in misstatement of Bank's financial statements, and any violations / lapses vis-à-vis the RBI's directions / guidelines regarding the role and responsibilities of the SA will be liable to be dealt with suitably under the relevant Statutory / Regulatory framework.
14. Review of the Policy: The policy will be reviewed as and when felt necessary by the Board and as per RBI Guidelines.
15. Approval By Board of Directors: The Board of Directors approved the Policy in Board Meeting held on 23-04-2022.

For, The Bhuj Mercantile Co-operative Bank Ltd.



[Handwritten Signature]

I/c CEO / GM / Authorized Signatory

Date: 23-04-2022
Ahmedabad